

**MULTIMEDIA**



**UNIVERSITY**

**STUDENT IDENTIFICATION NO**

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# **MULTIMEDIA UNIVERSITY**

## **FINAL EXAMINATION**

**TRIMESTER 2, 2016/2017**

**BBF 1014 – FINANCIAL MANAGEMENT I**  
(All sections / Groups)

11 MARCH 2017  
2.30p.m – 4.30p.m  
(2 Hours)

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### **INSTRUCTIONS TO STUDENTS**

1. This Question paper consists of 3 pages.
2. Answer all the 4 questions.
3. Please write your answer in the answer booklet provided.

**QUESTION 1**

- a) Amortize the 9th payment of a 5-year car loan. The loan amount is RM140,500 and the interest rate is 3.2 percent, compounded monthly. Assume monthly payments starting immediately. How much is the ninth principal and interest payment. After ninth payments, how much is the remaining loan balance? (8 marks)
- b) A beach house in Krabi, Thailand now costs RM650,000. Inflation is expected to cause this price to increase at 3 percent per year over the next 20 years before Eric and Karinna retire from successful careers in construction field. How large an equal annual end-of-year deposit must be made into an account paying an annual rate of interest of 9 percent in order to buy the beach house upon retirement? (8 marks)
- c) Dennis is enrolling in an MBA program. To pay his tuition, he can either take out a standard student loan (so the interest payments are not tax deductible) with an EAR of 5.5 percent or he can use a tax-deductible home equity loan with a monthly APR of 6 percent. He anticipates being in a very low tax bracket, so Dennis tax rate will be only 15 percent. Which loan should Dennis use? (6 marks)
- d) Charles has decided to refinance his mortgage. He plans to borrow whatever is outstanding on his current mortgage. The current monthly payment is RM2,356 and he has made every payment on time. The original term of the mortgage was 30 years, and the mortgage is exactly four years and eight months old. He has just made his monthly payment. The mortgage interest rate is 6.375 percent (APR). How much does Charles owe on the mortgage today? (4 marks)
- e) To pay for her CFP professional certificate tuition fees, Marry is saving RM1,500 at the beginning of each year for the next eight years in a bank account paying 12 percent interest. How much will Marry have in that account at the end of 8th year? (4 marks)

**[TOTAL: 30 MARKS]****QUESTION 2**

- a) Briefly discuss what are the TWO (2) aspects that the nominal rate be different from the real rate of interest? (5 marks)

**Continued...**

- b) Tango Manufacturing Berhad has an outstanding issue of bond with paying 12 percent coupon rate semi-annually. The bond was issued 25 years ago and has 5 years to maturity. Calculate the value of the bond assuming 14 percent of yield to maturity, and briefly explain whether the bond is selling at discount or premium? (5 marks)

[TOTAL: 10 MARKS]

### QUESTION 3

- a) Cole Productions suspended its dividend at the start of 2009 and as of the middle of 2012, has not reinstated its dividend. Suppose you do not expect Cole Productions to resume paying dividends until July 2014. You expect their dividend in July 2014 to be RM1.00 (paid annually), and you expect it to grow by 5 percent per year thereafter. If this firm equity cost of capital is 11 percent, what is the value of a share of Cole Productions in July 2012? (5 marks)
- b) Sunny Graphic Design Corporation just distributed RM2.80 per share in common stock dividends to the shareholders. The firm expects zero growth in the coming year 1. The dividend is expected to grow 5 percent in year 2 and 3. In year 4 and thereafter, growth should be a constant 10 percent per year. Calculate the value of the Sunny's stock if the required rate of return is 13 percent. (10 marks)
- c) Wood Corporation is taking into consideration of investment in a giant project with beta coefficient of 1.88, risk-free rate is 3.5 percent, and the rate of return on the market portfolio of assets is 7.5 percent. As an investment advisor of Wood Corporation, will you recommend the firm to invest in this project if this investment has an actual 10.5 percent rate of return? (6 marks)
- d) Describe what is systematic risk and unsystematic risk, and discuss briefly why some argues that systematic risk is the only relevant risk? (9 marks)

[TOTAL: 30 MARKS]

Continued...

**QUESTION 4**

- a) Describe in brief the two common techniques for managing inventory: ABC system and economic order quantity (EOQ) model. (8 marks)
- b) The Enviro Furniture Corporation is analyzing the performance of its inventory management. On average, the firm uses 2100 units of a product per year on a continuous basis. The fixed cost is RM25 per order, while the carrying cost is RM6 per unit per year. The lead time is 4 days, and the firm required to keeps 7 days' usage in inventory as safety stock. (Assume 365-day per year)
- (i) Calculate the economic order quantity (2 marks)
  - (ii) Calculate the average inventory (2 marks)
  - (iii) When should Enviro Furniture Corporation place its order? (3 marks)
- c) Union Company purchased a new machine on October 20th, 2016 for RM1,000,000 on credit. The supplier has offered A&A terms of 2/10, net 45. The current interest rate the bank is offering is 16 percent.
- (i) Compute the cost of giving up cash discount. (2 marks)
  - (ii) Should the firm take or give up the cash discount? (2 marks)
  - (iii) What is the effective rate of interest if the firm decides to take the cash discount by borrowing money on a discount basis? (5 marks)
- d) Briefly describe what is the line of credit agreement? What is the feature of annual clean up that often included in this agreement? (6 marks)

[TOTAL: 30 MARKS]

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